

## Message Text

CONFIDENTIAL

PAGE 01 GEORGE 01453 01 OF 02 171634Z

47

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 105569

O 171345Z AUG 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC NIACT IMMEDIATE 163

C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 1453

EXDIS

E.O. 11652: GDS

TAGS: EINV, EMIN, GY

SUBJECT: REYNOLDS NEGOTIATIONS

REF: A) STATE 179015 B) GEORGETOWN 1445

SUMMARY: PROBABLY UNDER PRESSURE FROM RADICAL ADVISERS, PM BURNHAM REVERSED FIELD IN MEETING WITH AMBASSADOR AUG 16. HE NOW INSISTS ON IMPOSING 1974 PRODUCTION LEVY AND USING IT AS OFFSET IN COMPENSATION FOR NATIONALIZING REYNOLDS. HE ALLEGES REYNOLDS MAKING HANDSOME PROFIT, OTHER BAUXITE PRODUCING COUNTRIES GETTING THEIR SHARE, AND HE CAN'T AFFORD DIVERT FUNDS FROM IMMEDIATE DEVELOPMENT NEEDS. ANY OTHER FORMULA, HE SAYS, WOULD EXPOSE HIM TO RIDICULE AT HOME AND ABROAD AND END HIS POLITICAL CAREER. HE AGREED TO RE-CONSIDER TAX TREATMENT OF REYNOLDS SALES OF "CHEMICAL GRADE" BAUXITE AND CONFIRMED REDUCTION OF RATE TO 7 AND HALF PERCENT PLUS EXCLUSION CALCINED, BUT SAID REYNOLDS OFFER OF US \$4 MILLION GROSSLY INADEQUATE. HE WAS TOLD PROPOSED FORMULA PROBABLY UNACCEPTABLE TO REYNOLDS AND APPARENTLY NOT RESPONSIVE USG CRITERIA, BUT WOULD BE TRANSMITTED TO USG. AMBASSADOR DECLINED DISCUSS IT DIRECTLY WITH REYNOLDS TEAM HERE. END SUMMARY.

1. PRIMIN BURNHAM ASKED ME TO COME TO BELFIELD AT 1600 AUG 16. AS WITH FONMIN I BEGAN BY READING REFTEL A TO WHICH HE LISTENED WITHOUT INTERRUPTION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 GEORGE 01453 01 OF 02 171634Z

2. HE BEGAN DISCUSSION WITH LENGTHY EXPOSITION OF HIS NEED TO

OBTAIN IMMEDIATE REVENUE FOR DEVELOPMENT, ASKING WHETHER REYNOLDS THOUGHT THEY WERE ENGAGED IN CHILD'S PLAY WITH THEIR OFFER OF US \$4 MILLION IN REVENUE FOR 1974, WHILE INSISTING ON 5 YEAR STANDSTILL ON NATIONALIZATION. HE SAID ONLY SUPPORT HE WOULD HAVE FOR TAKE OVER ALONG LINES INDICATED REFTEL WOULD BE FROM MINISCULE LIBERATOR AND VF PARTIES. EVEN WITHIN HIS OWN PNC RANKS HE WOULD BE CALLED "UNCLE TOM" AND IN FACT HE UNDERSTANDS OPPOSITION ALREADY USING THAT TERM.

3. HE ASKED MEANING OF "PROMPT" COMPENSATION, ADDING HE JUST DIDN'T HAVE CASE TO PUT DOWN. I SAID THIS TERM LIKE "ADEQUATE AND EFFECTIVE" SUBJECT TO ANALYSIS AND EVALUATION BASED ON CIRCUMSTANCES OF EACH CASE. BURNHAM THEN REFERRED TO INTEREST RATE ON DEBT OBLIGATIONS. HE SAID NEITHER TO CANADIANS NOR TO HIS OWN PEOPLE COULD HE JUSTIFY HIGHER RATE THAN HE AGREED TO WITH ALCAN. I SUGGESTED HE HAD READY EXPLANATION IN FACT THAT INTEREST RATES WORLDWIDE HAVE GONE UP STEEPLY SINCE 1971.

4. BURNHAM SAID HE HAD BEEN IN TIGHT ECONOMIC AND BUDGETARY SQUEEZE WHEN HE MADE AGREEMENT WITH REYNOLDS IN 1965. THEY KNEW IT AND DROVE HARD BARGAIN. NOW THEY WERE MAKING HANDSOME PROFIT IN 1974 AND HE FELT, ALONG WITH OTHER BAUXITE PRODUCERS, EVEN INCLUDING AUSTRALIA WHICH HAD JUST HIKE TAX FURTHER, THAT HIS GOVERNMENT ENTITLED TO BETTER SHARE OF THOSE PROFITS. HE SAID UNLIKE SUGAR AND RICE, ON WHICH HE IS GETTING SUBSTANTIALLY HIGHER SLICE OF CURRENT PROFITS, BAUXITE CAN'T BE GROWN YEAR AFTER YEAR ON SAME LAND. I CAN ONLY GET IT ONCE FROM BAUXITE, HE SAID AND THAT'S NOW. HE ALLUDED AGAIN TO 6-FOLD INCREASE OF REYNOLDS PROFITS THIS YEAR OVER 1973. I SUGGESTED AS I HAD PREVIOUSLY THAT WHILE ALUMINUM PRICE HAS GONE UP SO HAVE COMPANIES COSTS, AND THAT PROFITS OUGHT BE LOOKED AT IN CONTEXT OF RETURN ON INVESTED CAPITAL, WHICH STILL NOT ALTOGETHER HEALTHY FROM STANDPOINT OF ATTRACTING INVESTORS.

5. TO SATISFY HIS POLITICAL REQUIREMENTS, BOTH DOMESTIC AND INTERNATIONAL, BURNHAM SAID HE WOULD NEED TO SHOW SOME COMPENSATING BENEFIT TO GUYANA FOR LOSS OF 1974 REVENUE. NATIONALIZATION WAS NOT ENOUGH. HE ASKED IF I HAD ANY CONFIDENTIAL

CONFIDENTIAL

PAGE 03 GEORGE 01453 01 OF 02 171634Z

IDEAS WHERE COMPENSATION MIGHT COME FROM, IF NOT FROM REYNOLDS. I TOOK THIS TO BE OPENING FOR DISCUSSION OF POSSIBLE USG ASSISTANCE VIA AID LOANS, BUT WHEN I MENTIONED NATHAN STUDY AND LOAN FUNDED PROJECTS HE BRUSHED THIS ASIDE, SAYING HE MEANT GRANT FUNDS IMMEDIATELY AVAILABLE TO GOVERNMENT IN SOME FORM AS REVENUE. I SUGGESTED THAT THERE WERE WAYS TO EXPEDITE DISBURSEMENT OF LOANS AND THAT IN FINAL ANALYSIS THERE USUALLY WAS BALANCING OF BENEFITS IN LOAN TRANSACTIONS.

HE SAID AVERAGE GUYANESE WOULD NOT BE ABLE TO GRASP THIS CONCEPT. I ENDED THIS DISCUSSION BY SAYING AS HE WAS PROBABLY AWARE, EXCEPT FOR SMALL SUMS FOR SPECIAL PROJECTS AND PROGRAMS, CONGRESS HAD VIRTUALLY ELIMINATED GRANT FUNDS FROM AID APPROPRIATIONS IN LATIN AMERICA.

6. REVERTING TO PRODUCTION LEVY, BURNHAM ARGUED THAT EVEN AFTER HE HAD SCALED IT DOWN BY REDUCING RATE TO 7 AND HALF PERCENT AND EXCLUDING CALCINED, THERE WAS STILL ENORMOUS GAP BETWEEN US \$ 12 MILLION AND REYNOLDS OFFER OF US \$4 MILLION. I ASKED IF HE HAD RE-CONSIDERED QUESTION OF REYNOLDS "CHEMICAL" SALES. HIS ANSWER WAS THAT THIS GRADE WAS USEABLE IN METALLURGICAL PROCESS AND SHOULD BE TREATED SAME AS "METAL GRADE". I SAID I UNDERSTOOD FROM REYNOLDS THEY HAD GONE INTO SELLING THIS PRODUCT TO THIRD PARTIES FOR NON-METALLURGICAL USES WHEN ALUMINUM INDUSTRY IN RECESSION. IN ORDER MEET PRODUCTION TARGETS IN 1965 AGREEMENT AND IN RESPONSE TO GOG APPEAL NOT TO LAY OFF EMPLOYEES REYNOLDS MAINTAINED OVERALL TONNAGE MINED BUT WENT OUT AND DEVELOPED NEW MARKET IN CLOSE COMPETITION WITH ALUMINUM HYDRATE. THEY INFORM ME MARKET IS VERY PRICE SENSITIVE, WITH PRICE INCREASE OF ONLY US\$2 PER TON OVER PAST SEVERAL YEARS. THEY ASSURE ME ALSO THAT ALL SALES ARE TRUE ARMS-LENGTH TRANSACTIONS. BURNHAM SAID HE WOULD BE GLAD TO HAVE HIS EXPERTS MAKE FURTHER STUDY OF "CHEMICAL" AND IF COMPANYS ALLEGATIONS WERE VERIFIED, HE WOULD MAKE ADJUSTMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 GEORGE 01453 02 OF 02 171634Z

46

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 105570

O 171515Z AUG 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC NIACT IMMEDIATE 164

C O N F I D E N T I A L SECTION 2 OF 2 GEORGETOWN 1453

EXDIS

7. BURNHAM FINALLY PRODUCED THE FOLLOWING PROPOSITION, WHICH HE WANTS USG TO SOUND OUT WITH REYNOLDS. HE PROPOSES TO

CONTINUE NEGOTIATIONS WITH REYNOLDS ON BOTH TAX AND NATIONALIZATION ISSUES. HE EXPECTS TO END UP WITH NO AGREED FORMULA ON TAX ISSUE, BUT HE INTENDS TO PRESENT TAX BILLS TO PARLIAMENT AND HAVE IT PASS. HE WOULD THEN APPLY AMOUNT OF TAX AS OFFSET AGAINST WHATEVER FIGURE ARRIVED AT ON NATIONALIZATION SIDE OF NEGOTIATIONS.

HE WILL EXPECT PRO FORMA PROTEST FROM REYNOLDS AND PERHAPS SIMILAR ACTION BY USG. HOWEVER, HE WOULD HOPE RETAIN US FRIENDSHIP IN OTHER RESPECTS.

8. I REPLIED THAT I WOULD PUT THIS QUESTION TO MY GOVERNMENT IF HE WISHED BUT I FELT HONESTY REQUIRED THAT I GIVE HIM MY PERSONAL JUDGMENT IT WOULD NOT BE ACCEPTABLE. I SAID MOREOVER I DID NOT FEEL THAT I WAS IN A POSITION AS HE SUGGESTED TO PUT THIS PROPOSITION DIRECTLY TO REYNOLDS TEAM HERE. AT FORMIN RAMPHALS REQUEST I HAD PUT THE EARLIER QUESTION ABOUT TERMS OF NATIONALIZATION ONLY TO DEPT AND ANSWER HAD BEEN GIVEN WITHOUT CONSULTING REYNOLDS, NOR HAD I INFORMED REYNOLDS NEGOTIATORS HERE.

9. OUR MEETING LASTED TWO HOURS AND I HAVE OMITTED A CONSIDERABLE PORTION OF OUR DISCUSSION WHICH WAS NOT RELEVANT TO THE MAIN ISSUES. BURNHAM DID REITERATE HIS OFFER TO SUPPLY BAUXITE TO REYNOLDS IN FUTURE AT WORLD PRICE, ALTHOUGH HE SAID HE WAS IN MINORITY AMONG HIS CABINET ON THIS. ONE OTHER POINT

CONFIDENTIAL

PAGE 02 GEORGE 01453 02 OF 02 171634Z

PERHAPS WORTH MENTION WAS BURNHAMS ALLEGATION THAT ACCORDING

TO PRIMIN MANLEY, DURING JAMAICAN NEGOTIATIONS REYNOLDS TRIED TO MAKE A CASE THAT COST OF PRODUCING BAUXITE IS HIGHER THERE THAN IN GUYANA. I SAID FORM WHAT I HAD BEEN ABLE TO LEARN IN DEPENDENTLY, I DOUBTED SUCH A CASE COULD BE MADE - OR WOULD HAVE BEEN MADE.

10. COMMENT: I SUSPECT THAT PRESSURES FROM RADICAL ELEMENT IN CABINET MAY WELL BE CAUSE OF BURNHAMS REVERSING HIS FIELD ON TAX ISSUE. HE WAS NOTICEABLY MORE ON EDGE IN THIS MEETING THAN IN TWO PREVIOUS ONES, THOUGH STILL AFFABLE AND COURTEOUS. HIS JOKES AND LIGHT TALK SEEMS A BIT FORCED, AND HE DELIVERED SEVERAL INDIRECT JABS AT THE US, EG. WHETHER ANY USG COULD SURVIVE EVEN 10 PERCENT UNEMPLOYMENT RATE, WHILE HE IS STRUGGLING WITH SOMETHING BETWEEN 12 AND 25 PERCENT.

11. I BELIEVE BURNHAM SHOULD BE TOLD PROMPTLY THAT, AS I SUGGESTED TO HIM HIS PROPOSITION IS LIKELY TO INDUCE REYNOLDS TO FALL BACK ON US OPIC POLICY. IN LIGHT OF THIS PROBABILITY,

IT WOULD BE IMPRACTICAL FOR USG TO BE PARTY TO PRESENTING  
PROPOSAL TO REYNOLDS. IF HE FEELS OBLIGED TO PROCEED ON  
THIS COURSE, THE ONLY WAY TO OBTAIN REYNOLDS REACTION IS  
FOR GOG TO PLACE THE MATTER BEFORE THEM DIRECTLY. AT SOME TIME,  
WE AGREE THAT NATIONALIZATION AND TAX ISSUES ARE INSEPARABLE,  
AND SOONER THEY ARE DEALT WITH SQUARELY AND THOROUGHLY IN  
CURRENT TALKS THE BETTER FOR ALL CONCERNED. WE WOULD EXPRESS  
HOPE HOWEVER THAT BURNHAM WOULD BEAR IN MIND THE SEVERAL  
FACTORS COVERED IN OUR MESSAGE CONVEYED TO HIM AUGUST 16,  
INCLUDING THE AVAILABILITY OF USG "GOOD OFFICES" AND OPIC  
"EXPERTISE" IN EVENT GOG BELIEVES EITHER OR BOTH OF THESE  
ELEMENTS MIGHT MAKE A CONTRIBUTION.  
KREBS

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NATIONALIZATION, DIPLOMATIC DISCUSSIONS, MINING INDUSTRY, NEGOTIATIONS, LEVIES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 17 AUG 1974  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** izenbei0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974GEORGE01453  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740227-0349  
**From:** GEORGETOWN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740839/aaaabhax.tel  
**Line Count:** 236  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** A) STATE 179015 B) GEORGETOWN 1445  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** izenbei0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 SEP 2002 by boyleja>; APPROVED <21 FEB 2003 by izenbei0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** REYNOLDS NEGOTIATIONS  
**TAGS:** EINV, EMIN, GY, US, REYNOLDS, (BURNHAM, FORBES)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005